



PAY RISES: A PLUS FOR THE ECONOMY

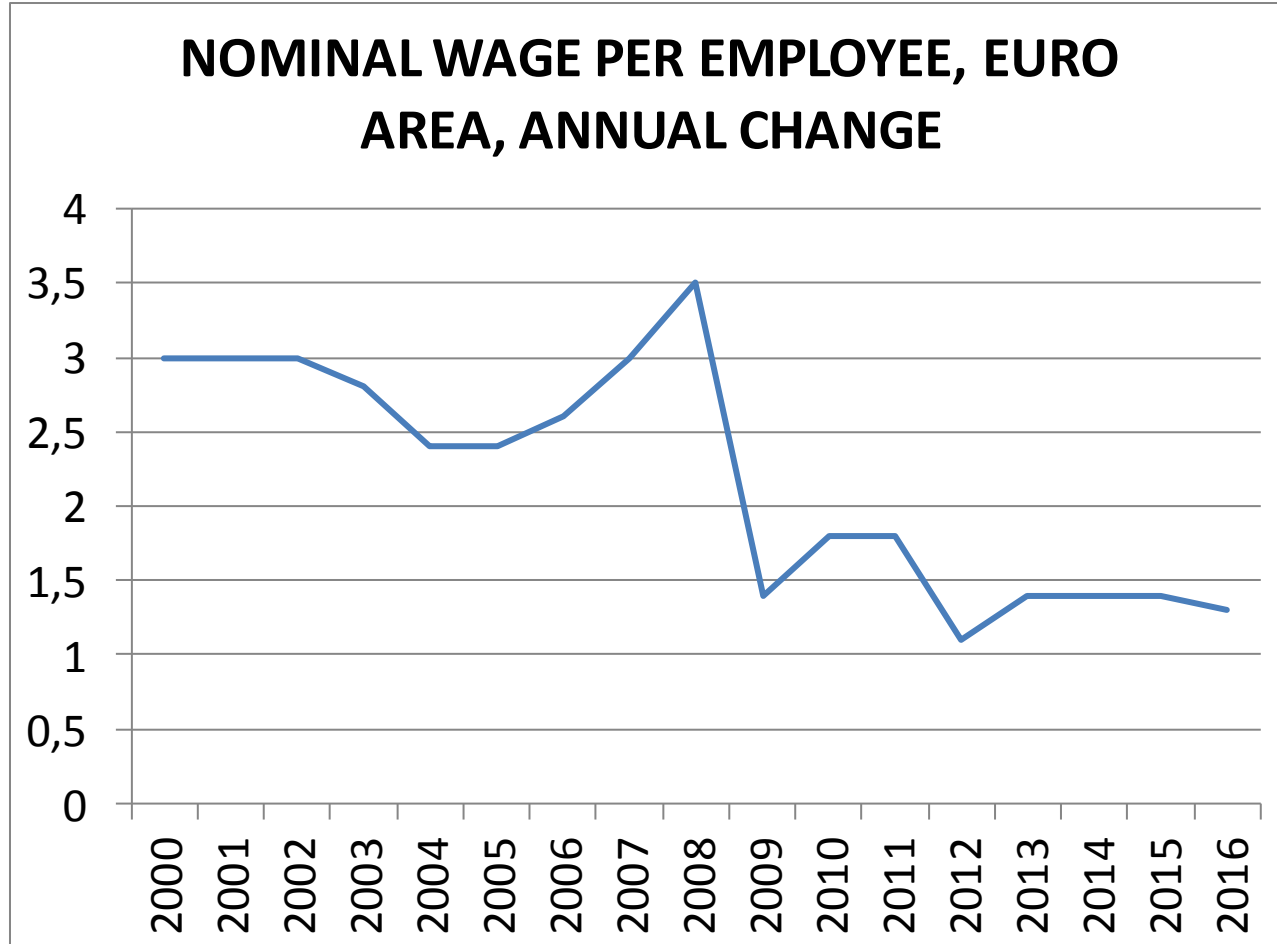
Ronald Janssen, TUAC

DECOBA Workshop

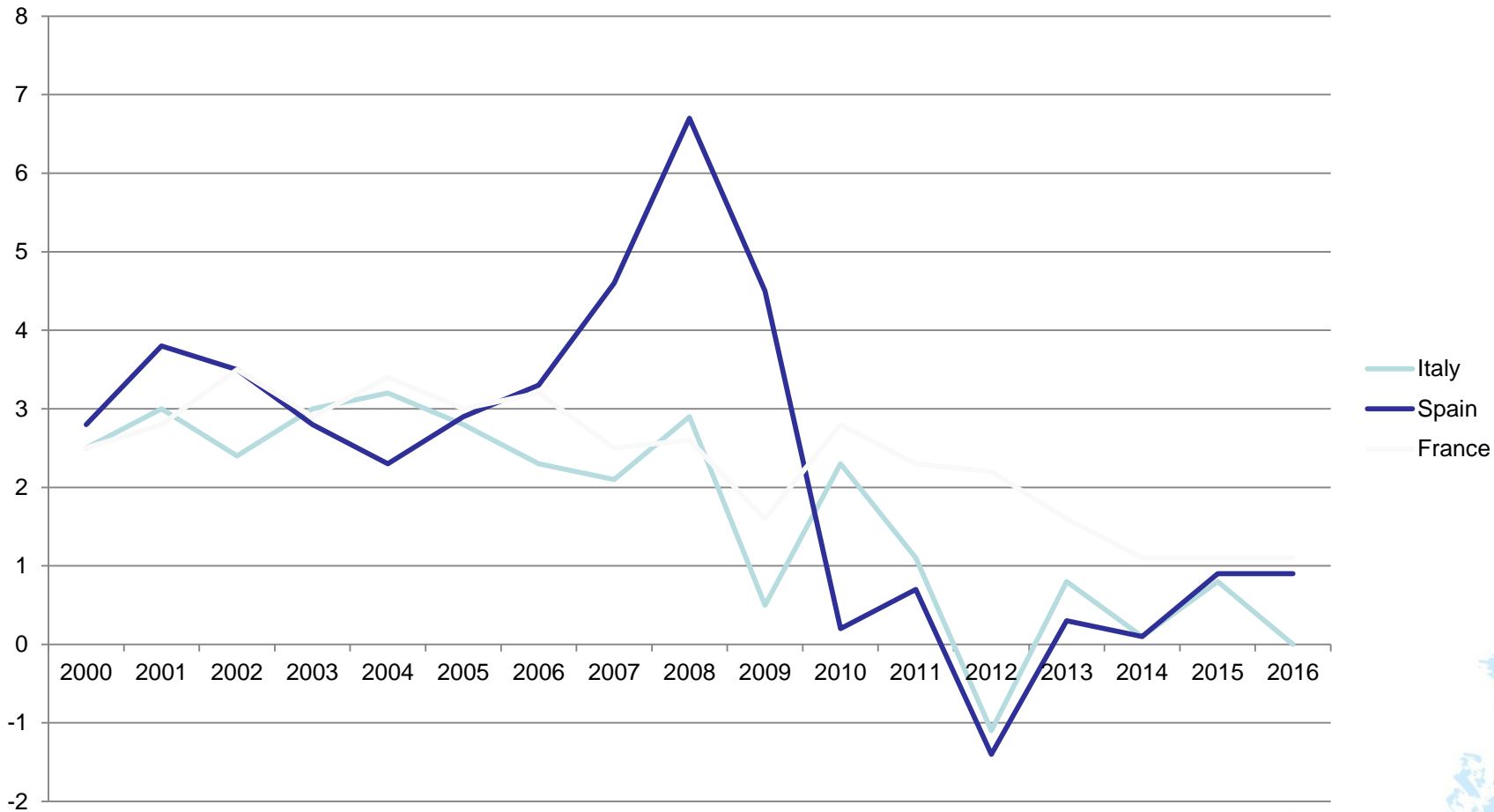
Brussels, ETUC,

20 February 2017

WAGES FAIL TO RECOVER

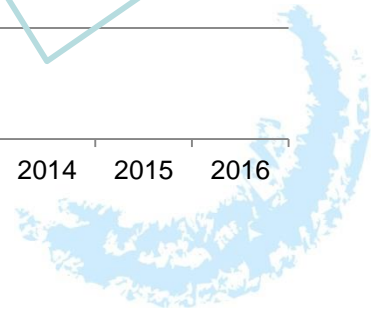


WAGES TOUCHING ROCK BOTTOM

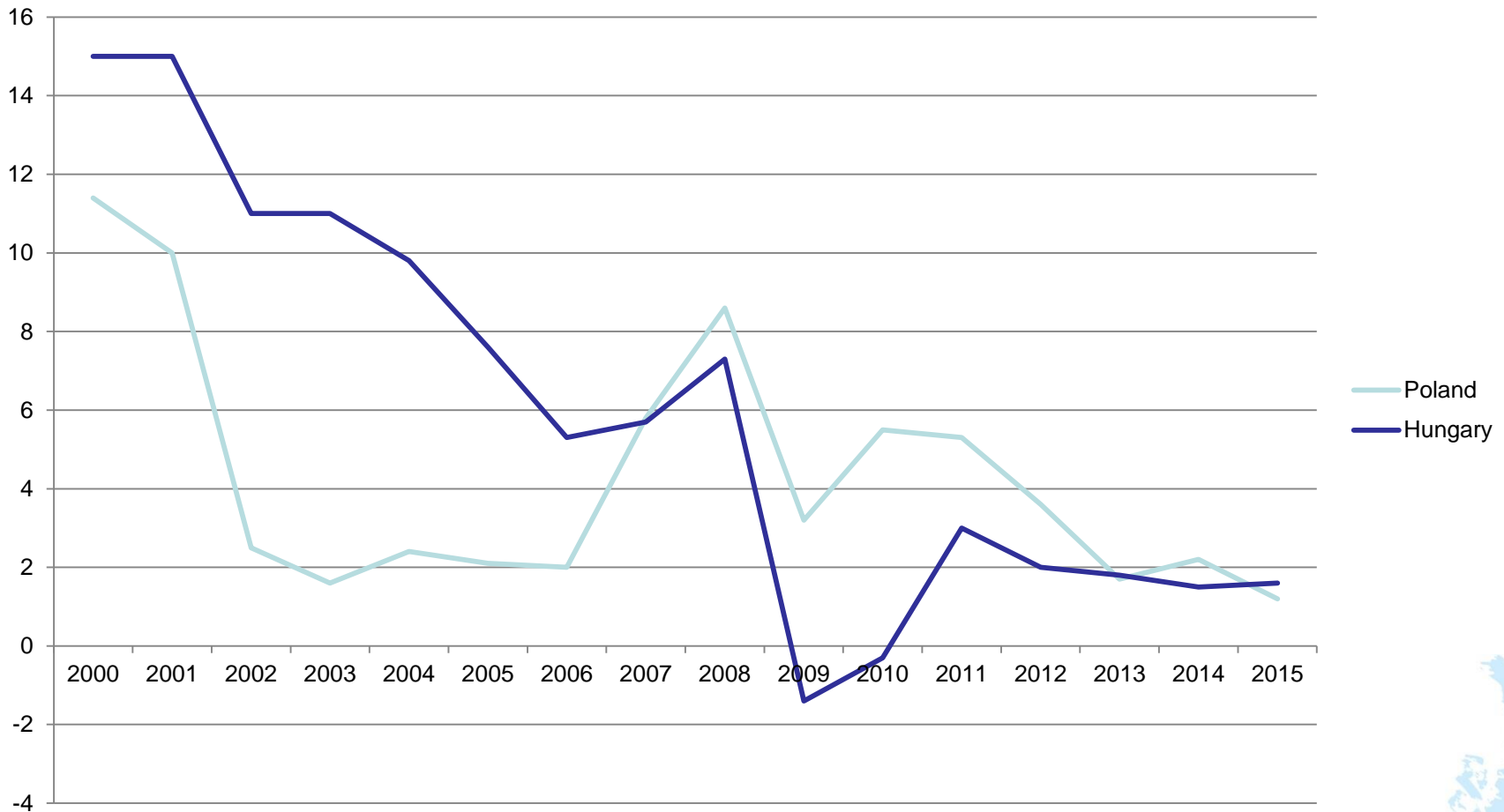


UK: PAY STUMBLING ALONG

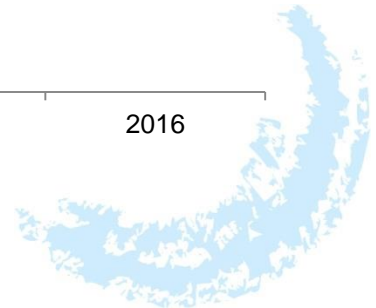
Nominal wages in UK, annual change



CEE: CONVERGENCE TOWARDS THE BOTTOM



WAGE DYNAMICS MODEST EVEN IN GERMANY



WAGE STAGNATION IS BAD FOR THE ECONOMY

- HOLDING BACK THE RECOVERY
- FEEDING FORCES OF DEFLATION
- INCREASING INEQUALITIES
- PREVENTING UPWARD
CONVERGENCE OF WAGES IN CEE



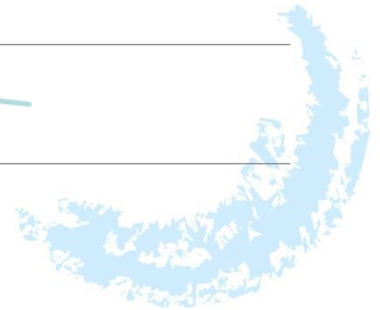
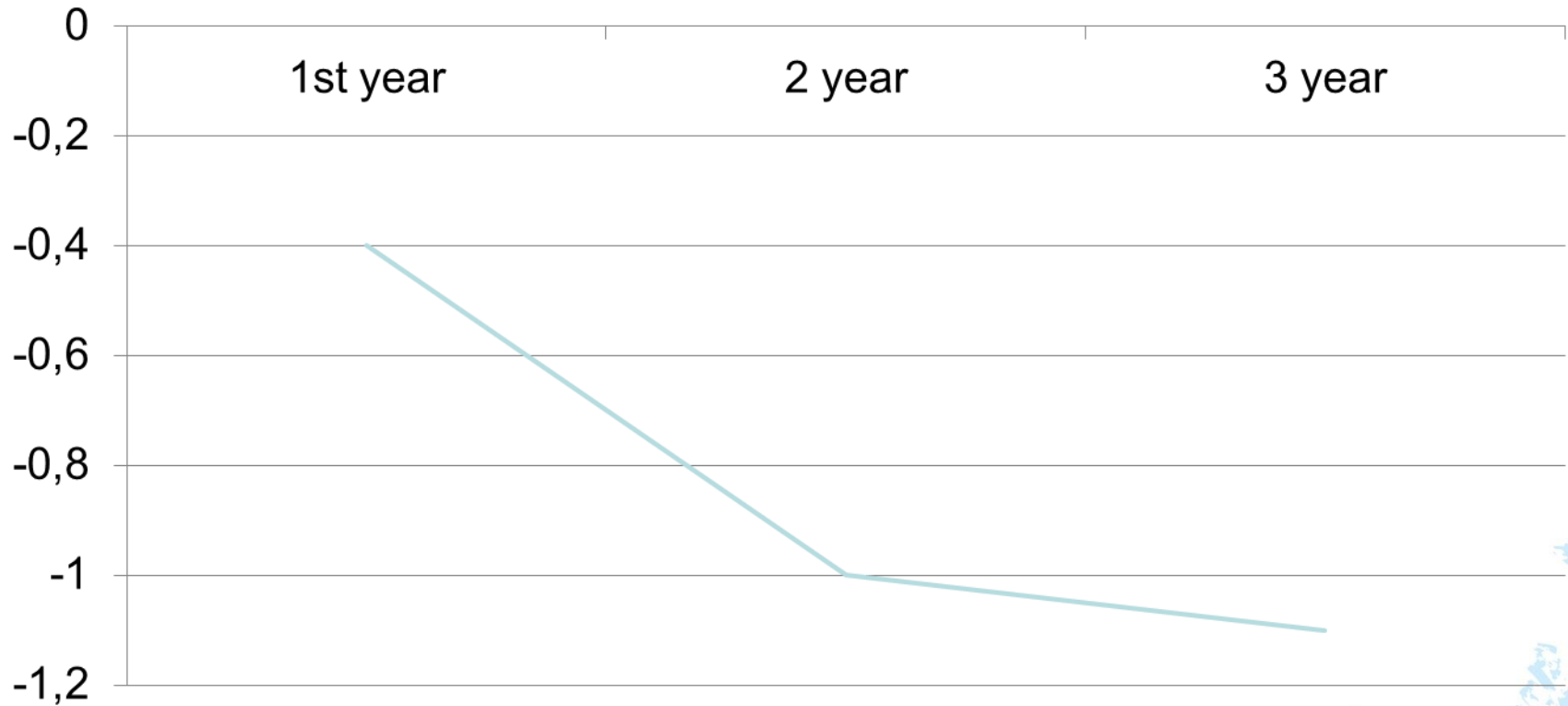
(1) WAGES STRENGTHEN DEMAND AND ACTIVITY

- PERSPECTIVE OF INDIVIDUAL FIRM:
WAGES ARE JUST A COST
- MACRO PERSPECTIVE: SQUEEZING
WAGES UNDERMINES DEMAND FOR
GOODS AND SERVICES
- “MY WAGE = MY SPENDING = YOUR
JOB”



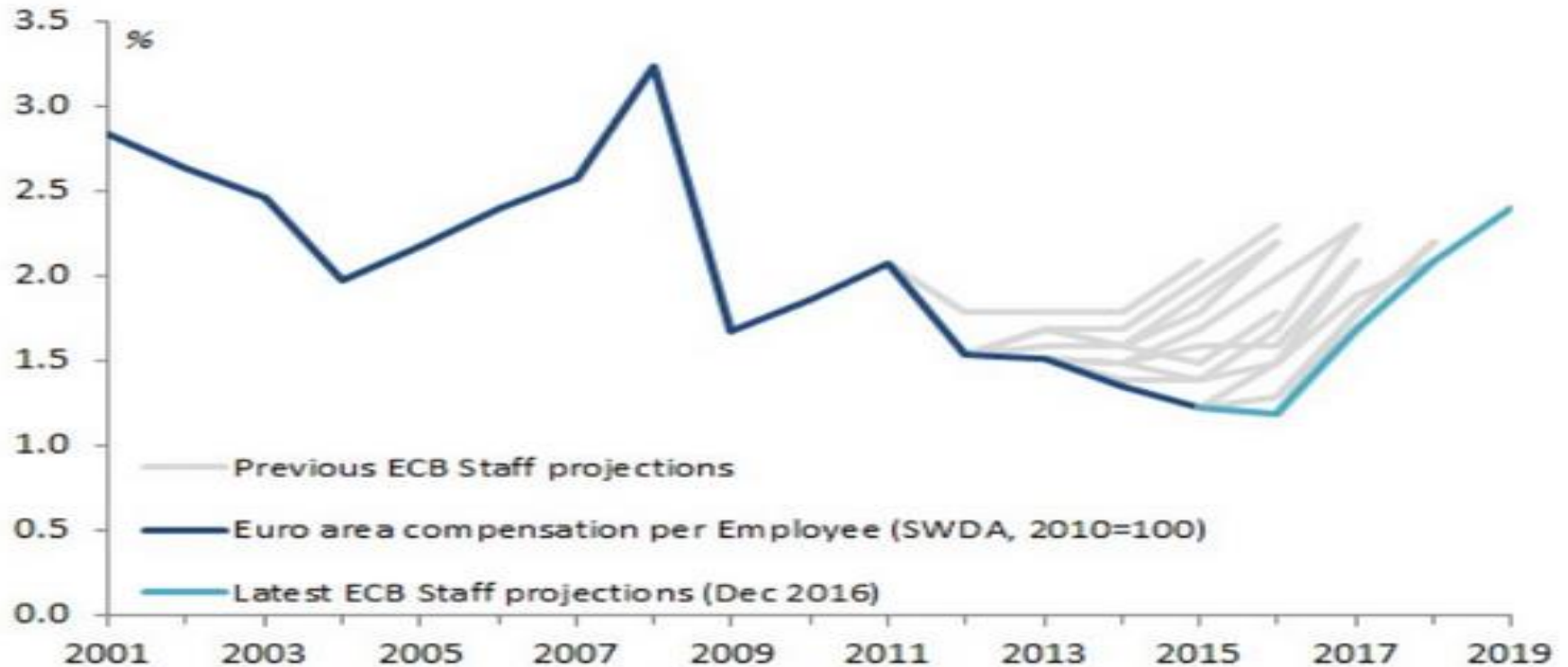
AN IMF SIMULATION

GDP DEVIATION ALL EURO COUNTRIES MODERATE



ECB ACTUALLY COUNTING ON WAGE REVIVAL

Exhibit 3: Area-wide wage growth has consistently disappointed %yoy



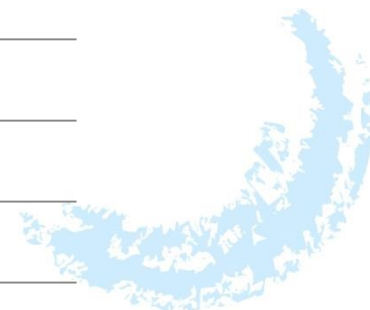
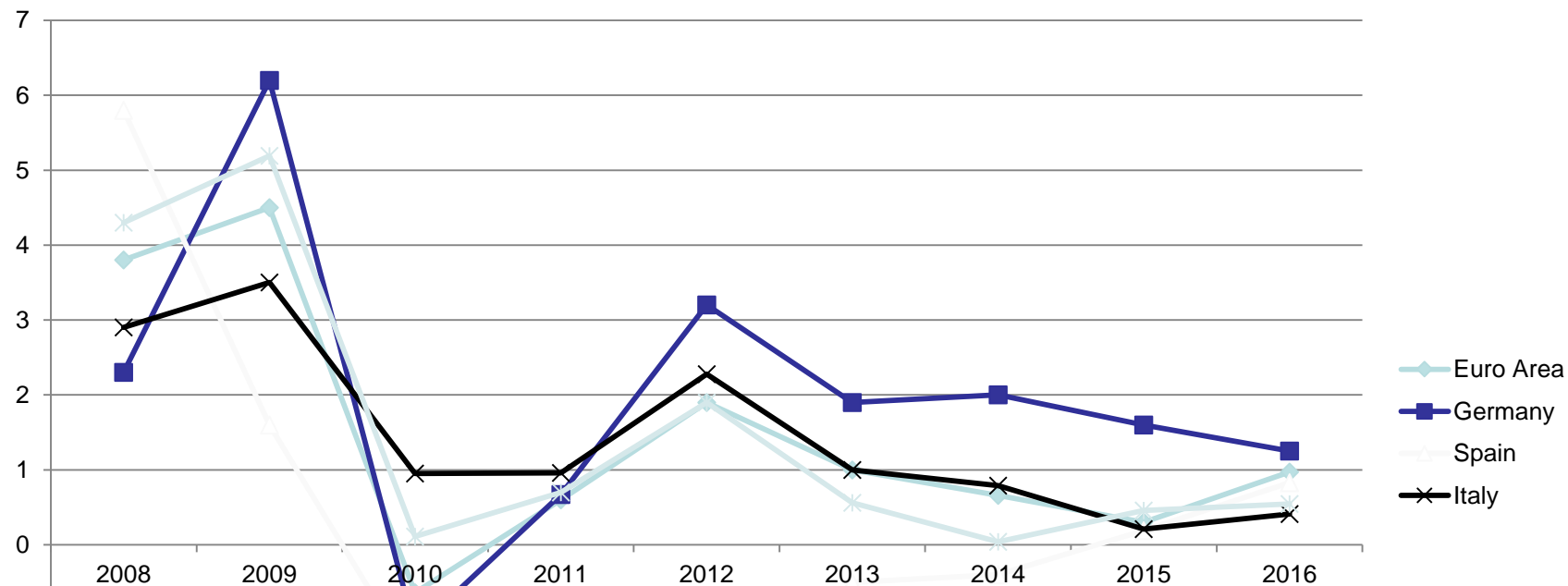
Source: ECB, Goldman Sachs Global Investment Research

(2) WAGES AS AN ANCHOR OF PRICE STABILITY

- A KEY OBJECTIVE OF CENTRAL BANKS: KEEP INFLATION UP (at least 2 5%) TO KEEP ECONOMY AWAY FROM DEFLATION
- ZERO WAGE COSTS = NO PRESSURE ON BUSINESS TO RAISE PRICES



UNIT WAGE COSTS FAR BELOW 2%

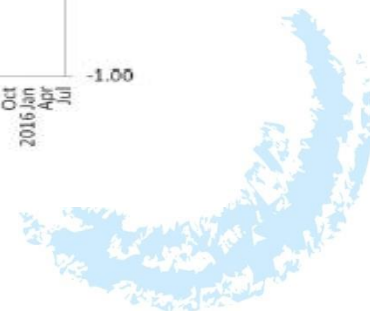


ECB MISSING INFLATION TARGET

Figure 2: Inflation: the ECB massively misses the stability target.

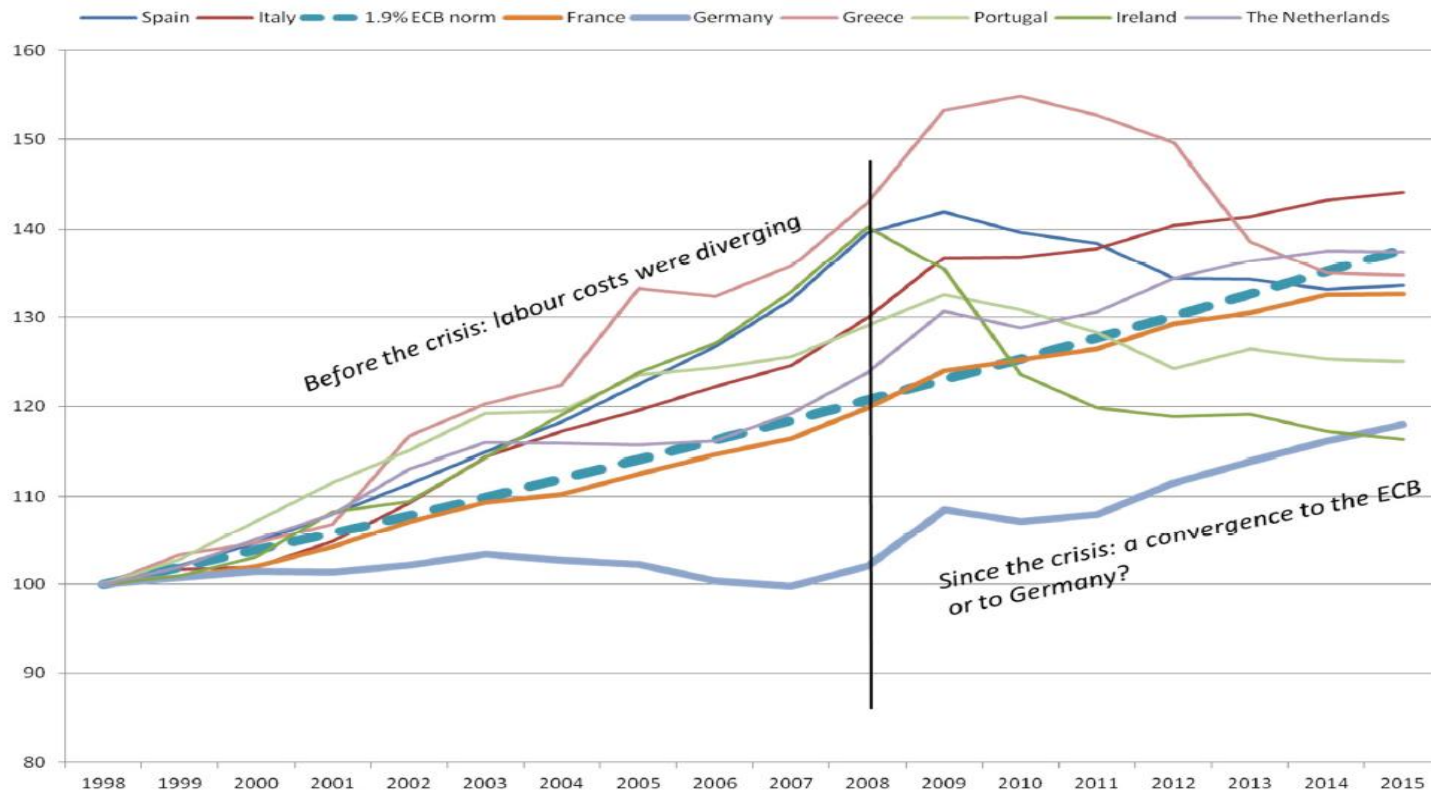


Sources: Eurostat, ECB; own calculations

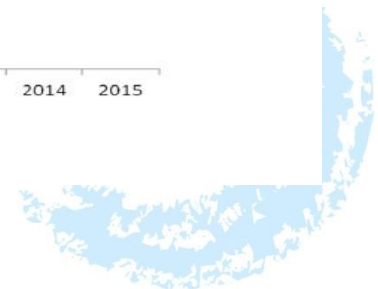


BEHIND THE EURO AVERAGE

Figure 1: Germany undercut the 2% stability norm of the ECB

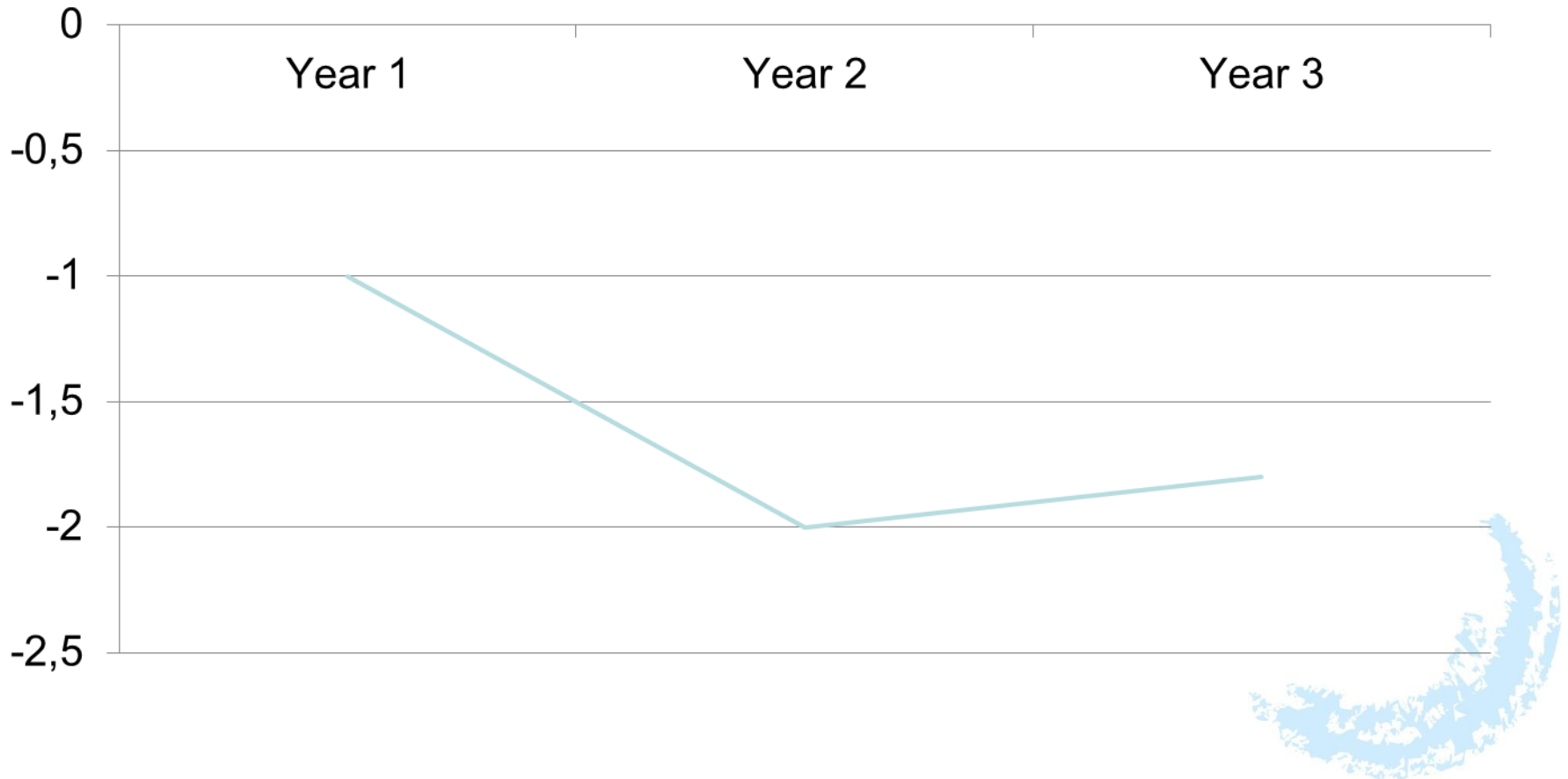


Source: Eurostat (Ameco database)

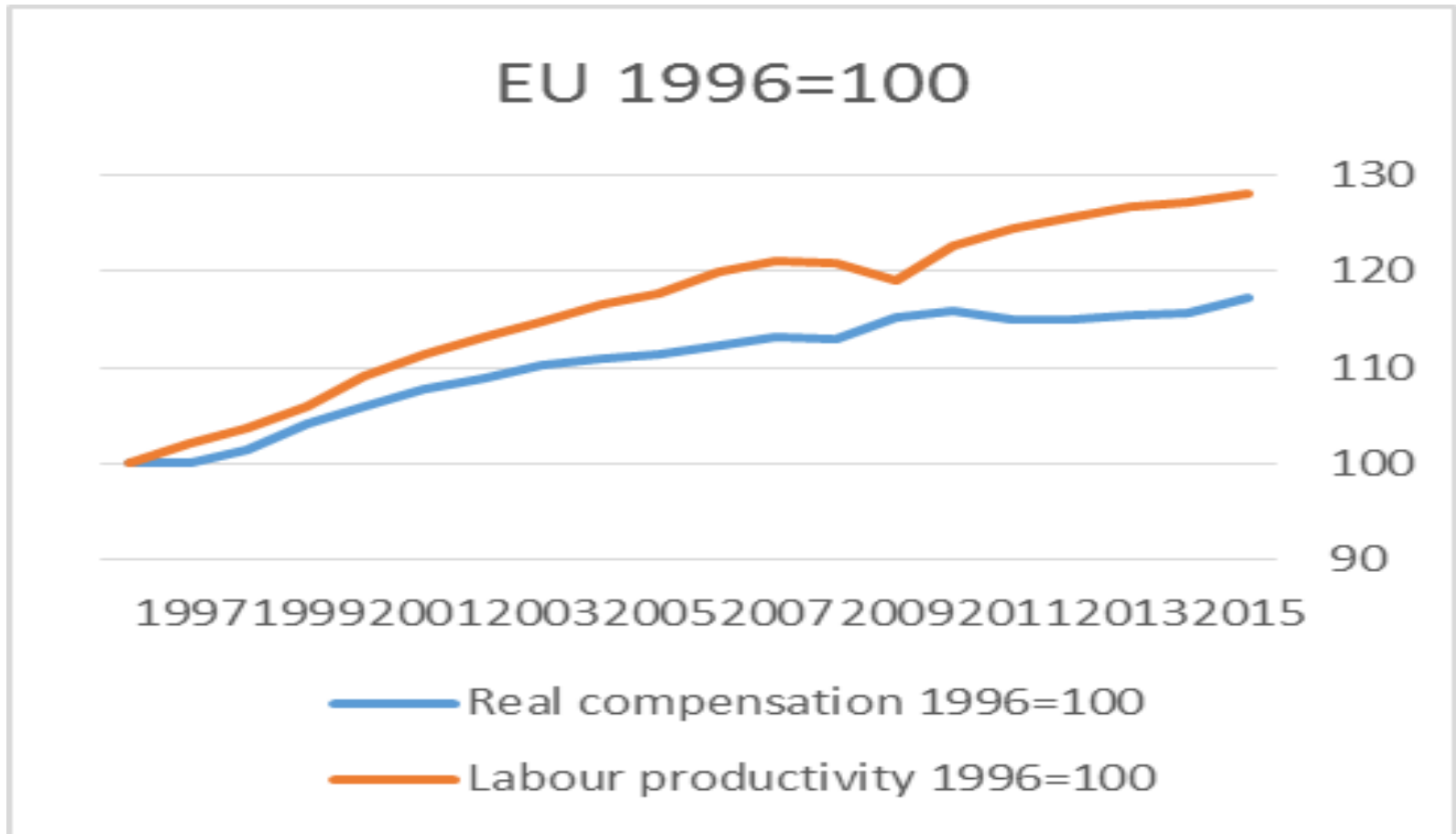


IMF WAGE MODERATION SCENARIO

IMPACT ON INFLATION OF WAGE MODERATION ACROSS EURO AREA

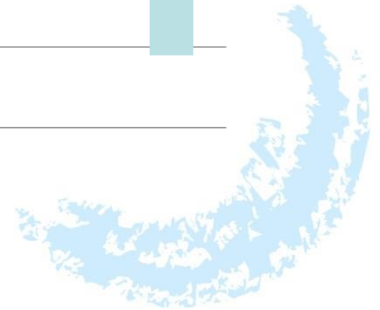
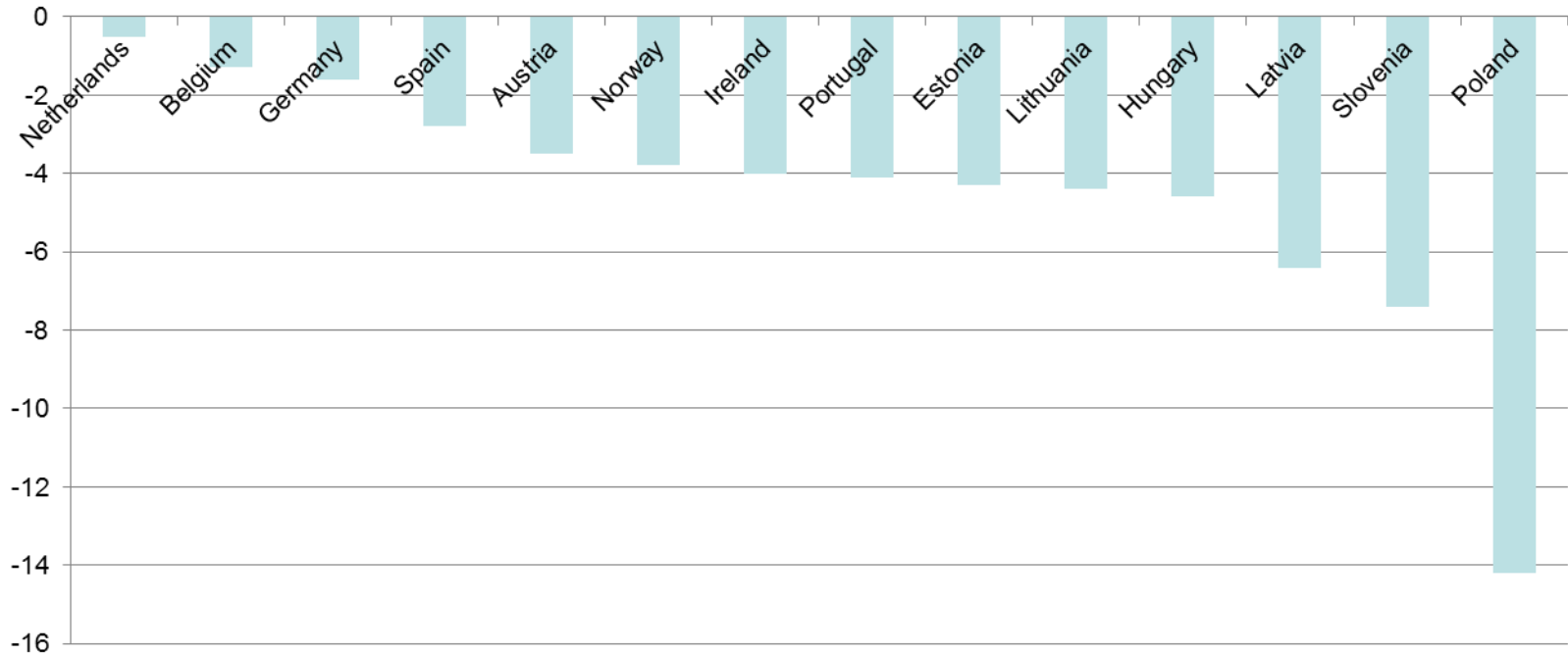


(3) WAGES AND INEQUALITY



LABOUR SHARE IN DECLINE

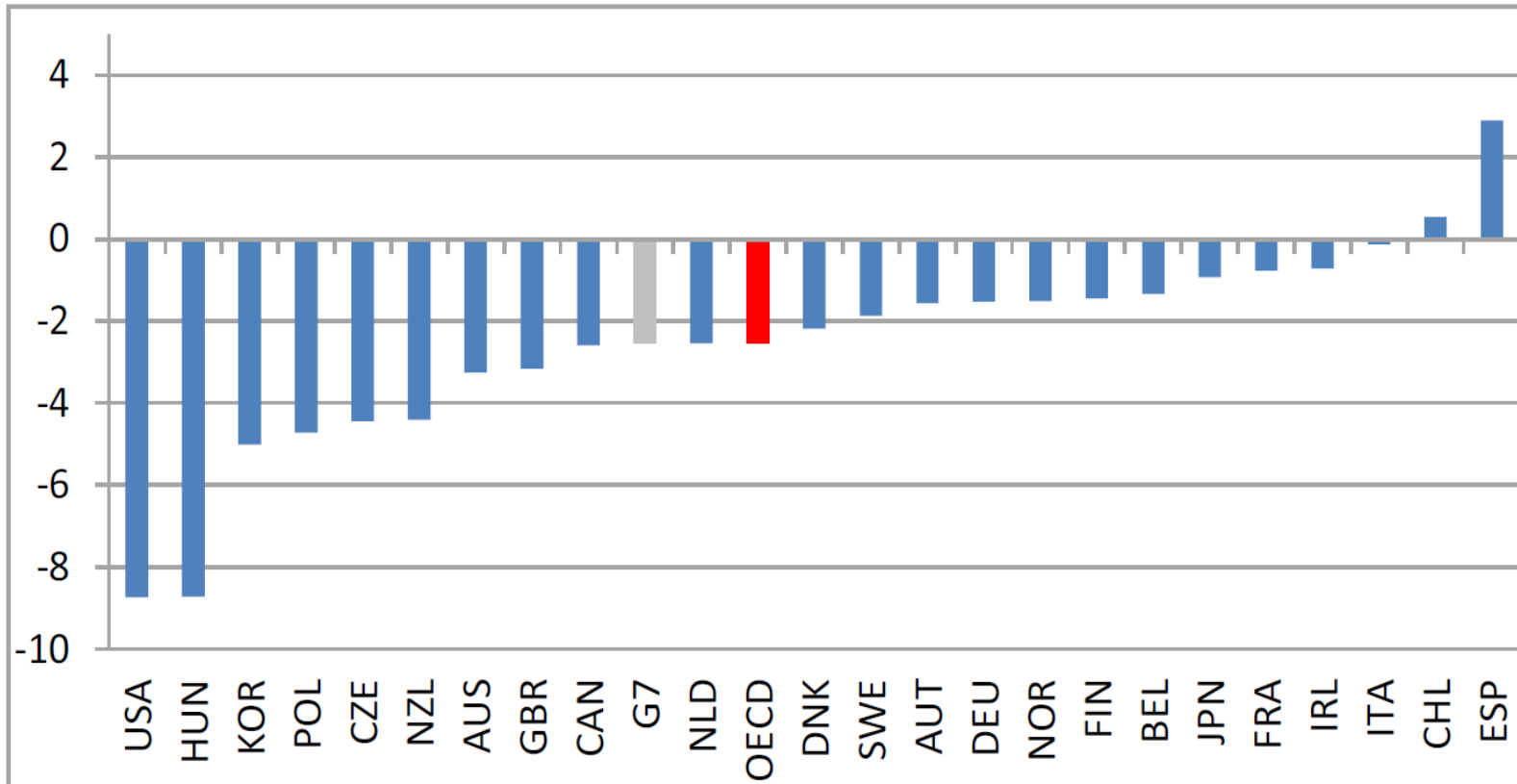
Declining labour shares in the EU 1995-2014
(in percentage points)



WAGES AT THE TOP PULLING AWAY

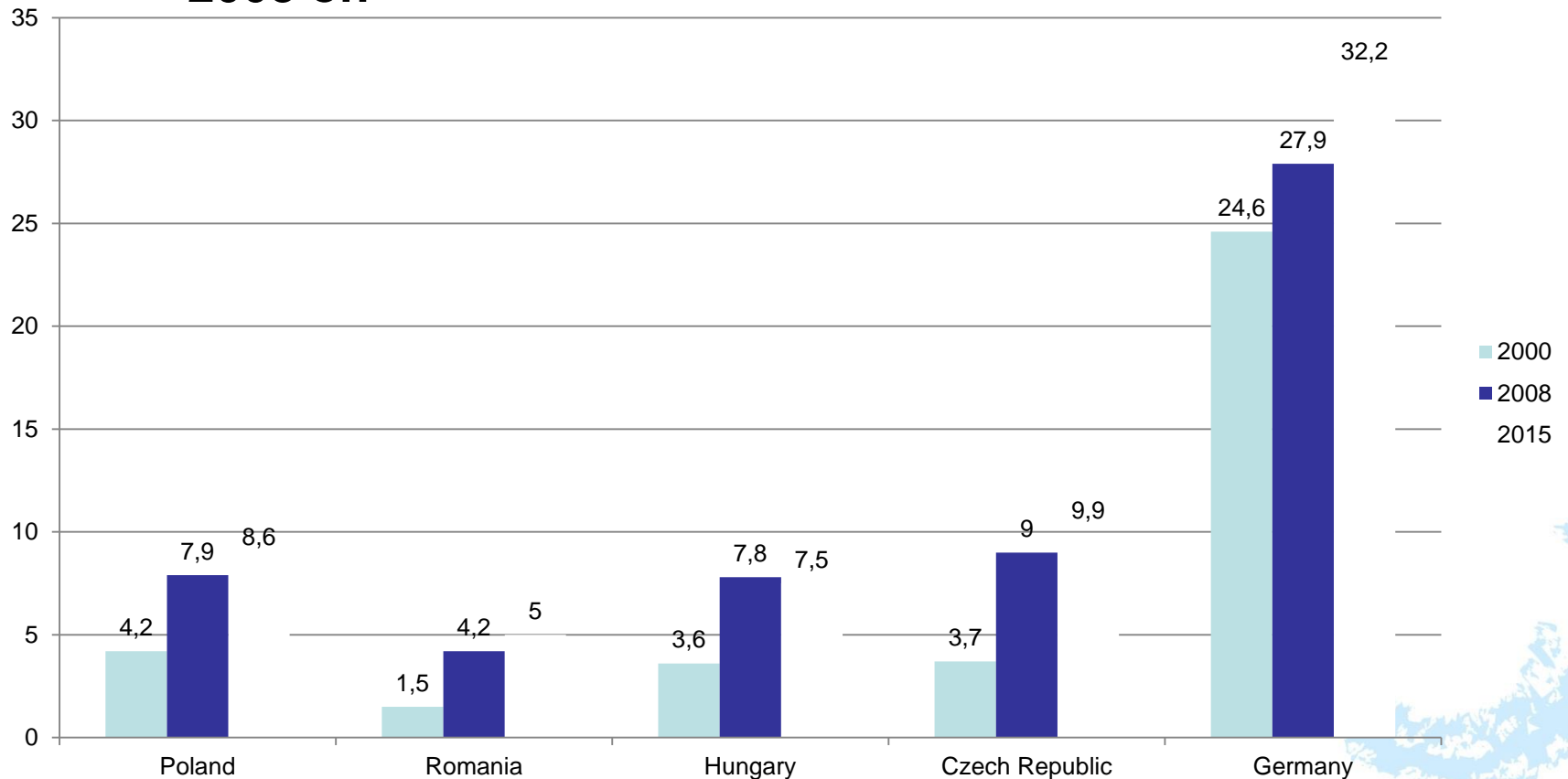
Figure 7. The ratio of median to average wages has declined in a wide range of OECD countries

Percentage points, 1995-2013



(4) PREVENTING CATCH UP OF CEE

Wages per hour in CEE losing traction from 2008 on



... DESPITE MUCH SMALLER GAPS IN PRODUCTIVITY

- WAGE IN CZ 33% OF WAGE IN DE....WHILE PRODUCTIVITY IN CZ IS 67% OF DE
- WAGE IN RO 9% OF DE WAGE....WHILE PRODUCTIVITY IN RO IS 44% OF DE
- THESE STATISTICS BIASED DOWNWARDS IN FDI RECEIVING COUNTRIES(see ETUI WP 2016/08)



LOW WAGE STRATEGY NOT SUSTAINABLE

- OTHER PARTS OF THE WORLD OPEN UP AND DEVELOP AND BECOME NEW COMPETITORS
- TO KEEP AHEAD, CEE NEED TO UPGRADE INTO MORE SOPHISTICATED PARTS OF VALUE CHAINS
- HIGHER WAGES PROVIDE INCENTIVE TO DO SO...ALSO RETAINING SKILLS



EUROPEAN WORKERS NEED A PAY RISE

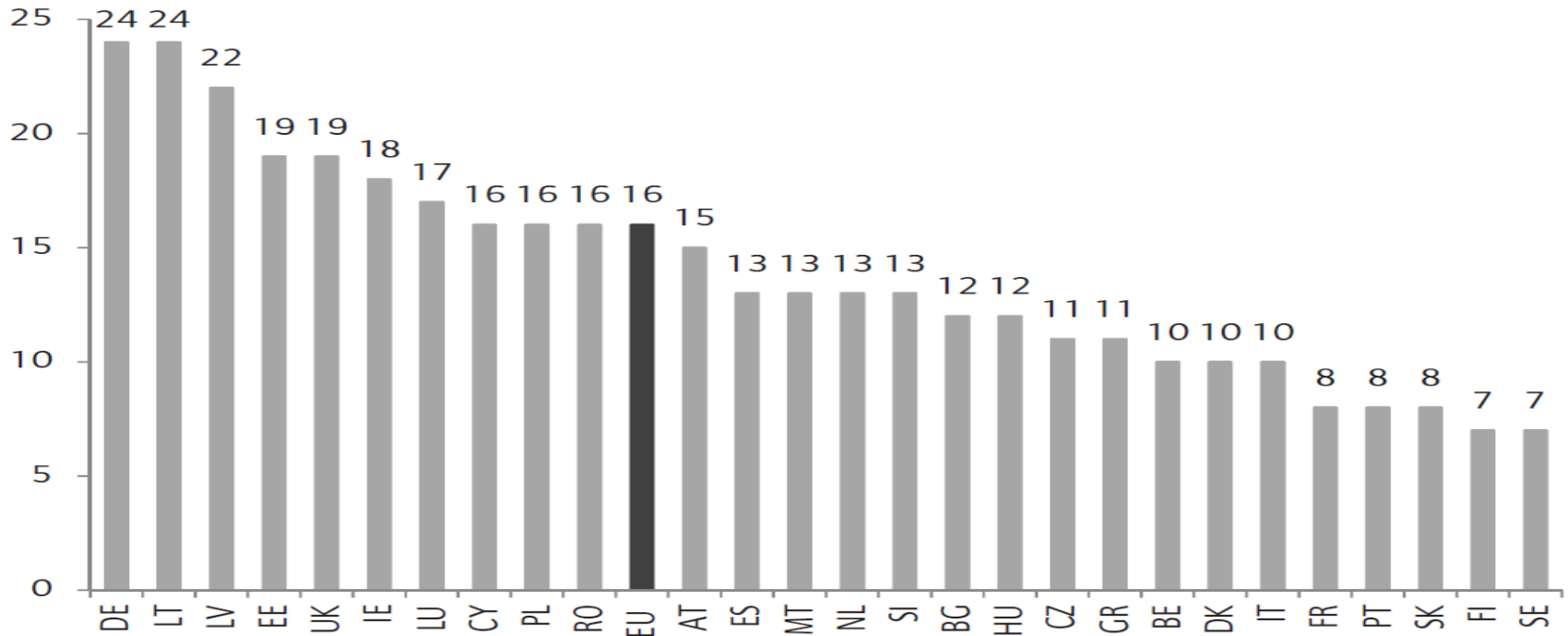
- TO SUPPORT RECOVERY
- TO GET BACK TO PRICE STABILITY
- TO PROMOTE FAIR DISTRIBUTION OF ECONOMIC PROGRESS

- WHAT IS TO BE DONE ?



TACKLING LOW PAY

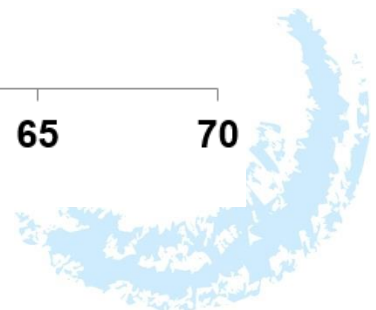
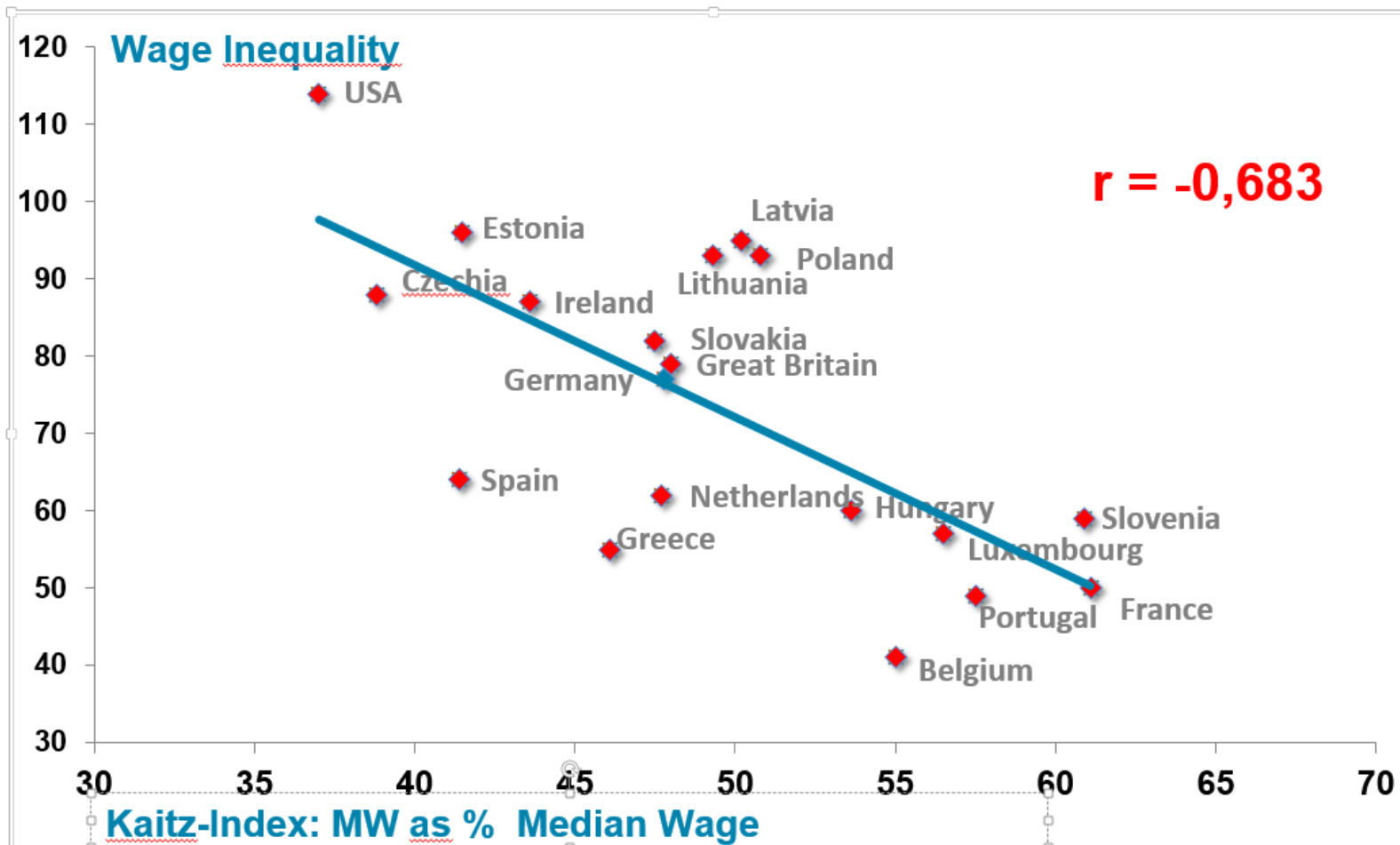
WORKERS EARNING LESS 60% MEDIAN



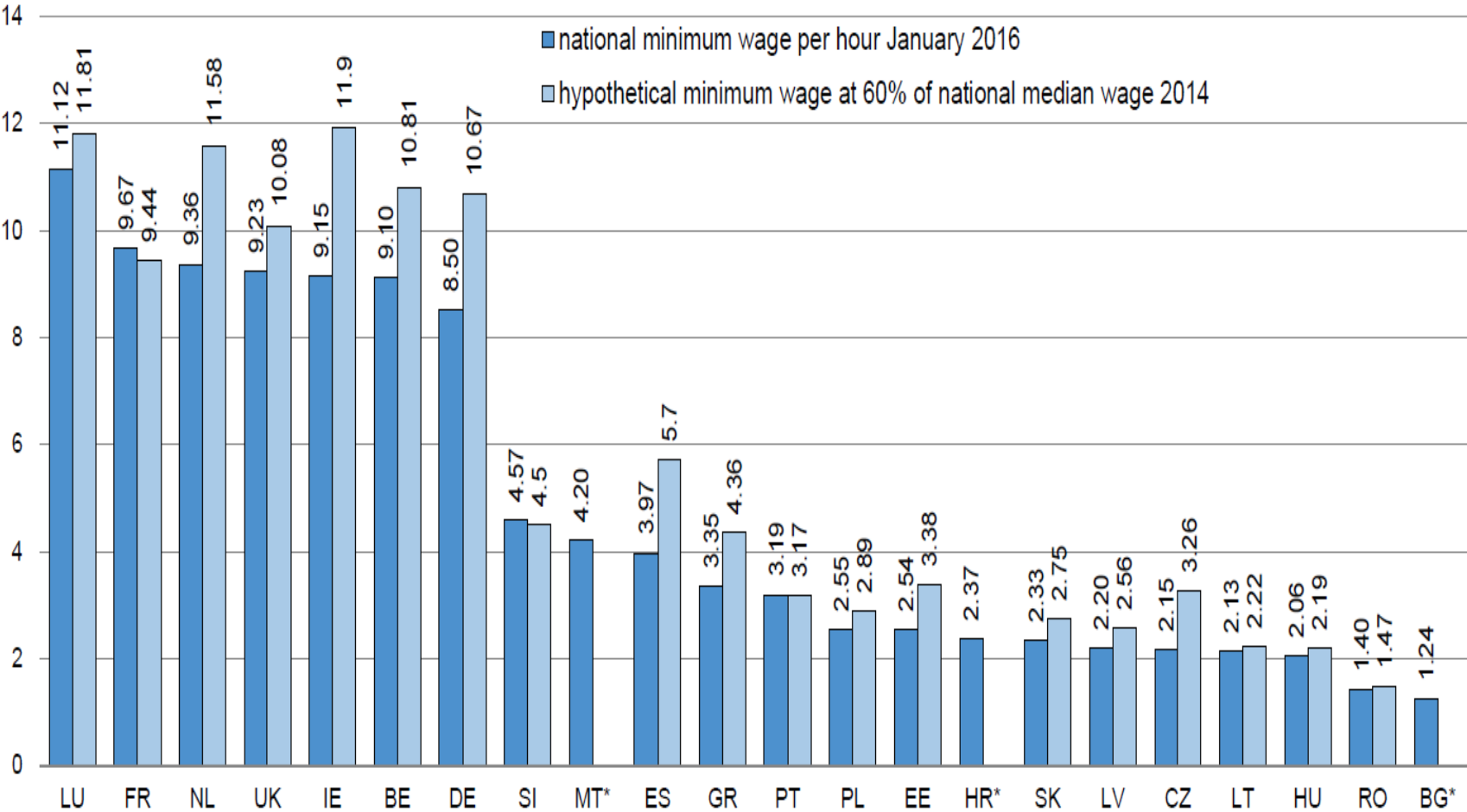
Source: Aumayr-Pintar *et al.* (2014), p. 112, based on EU-SILC and SES.



Wage inequality (D5/D1) and minimum wages 2014



NATIONAL MINIMUM WAGES

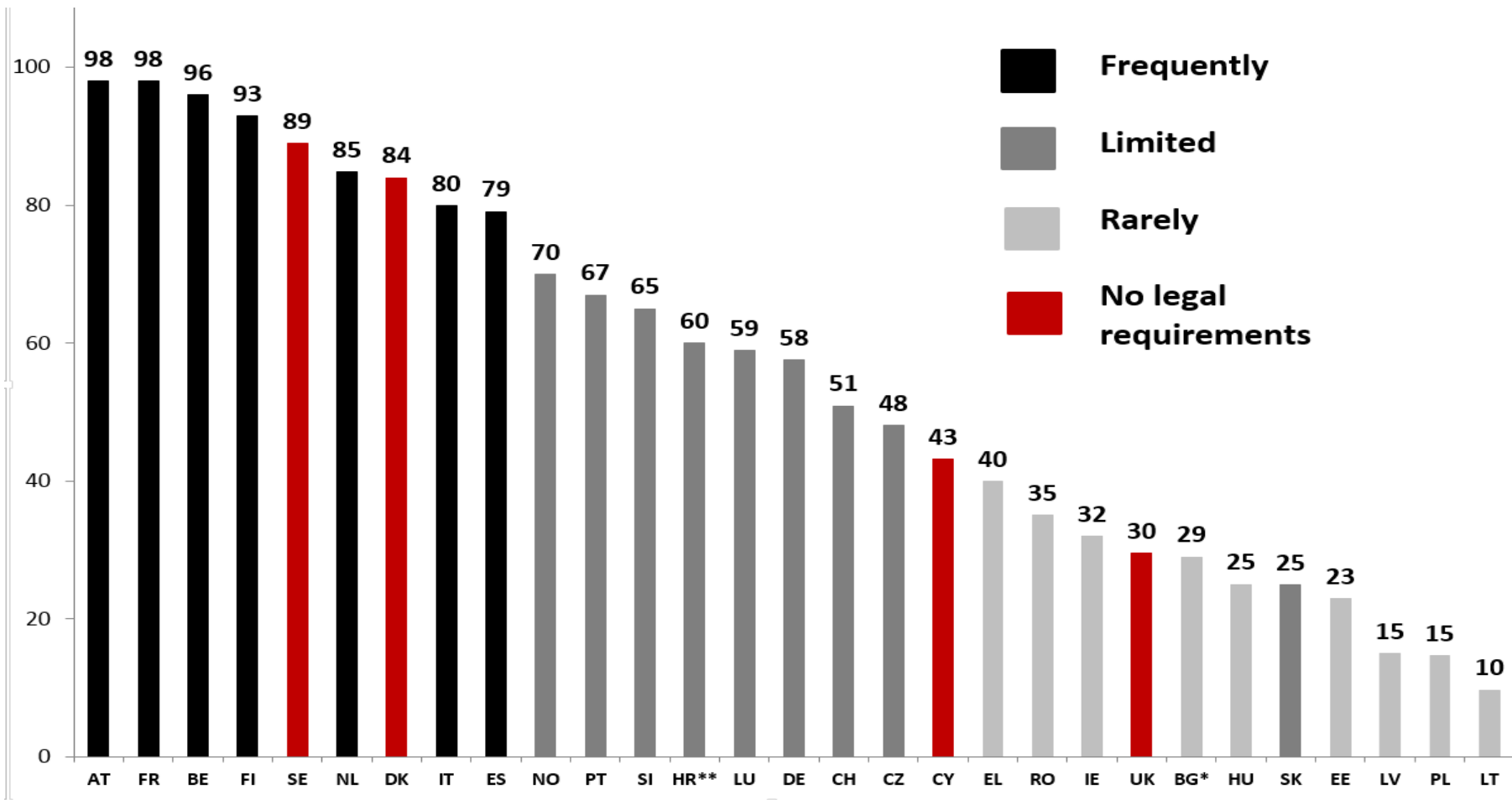


COLLECTIVE BARGAINING

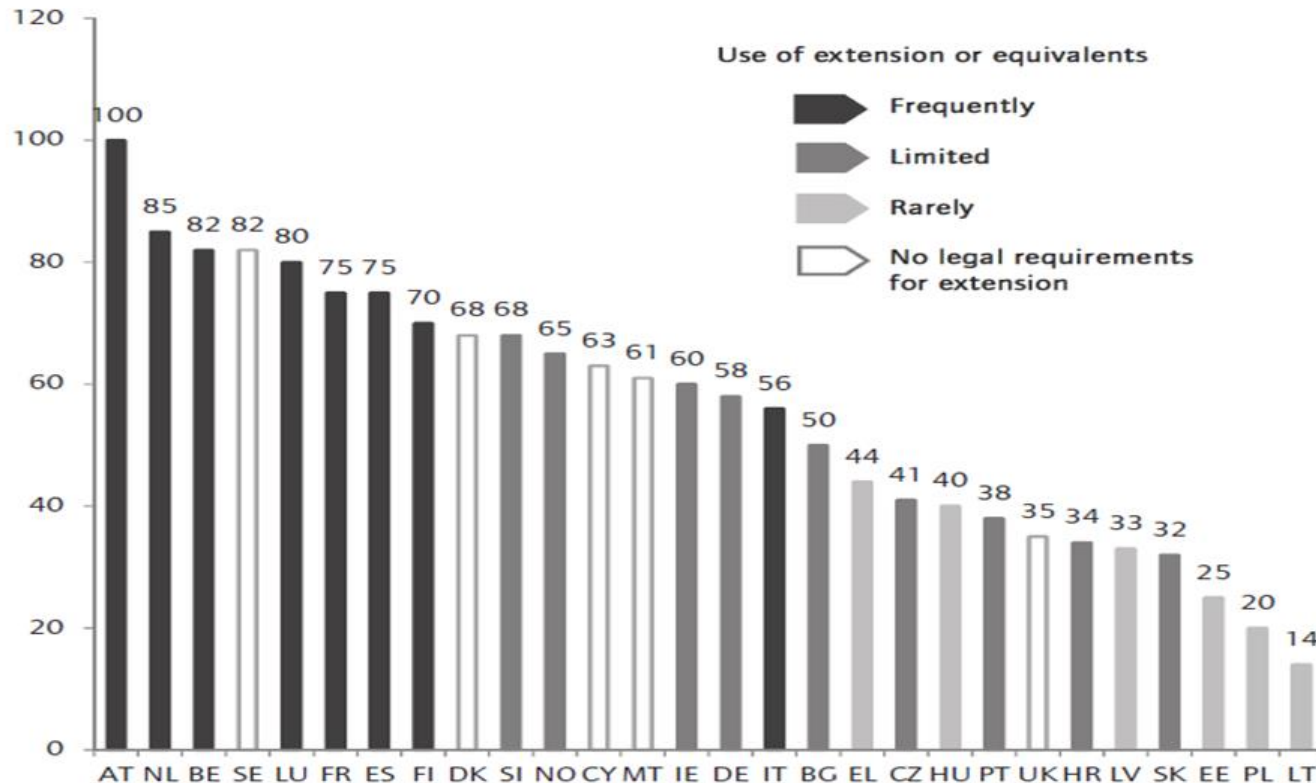
- RESPECT
- RESTORE
- PROMOTE



COLLECTIVE BARGAINING COVERAGE AND EXTENSION



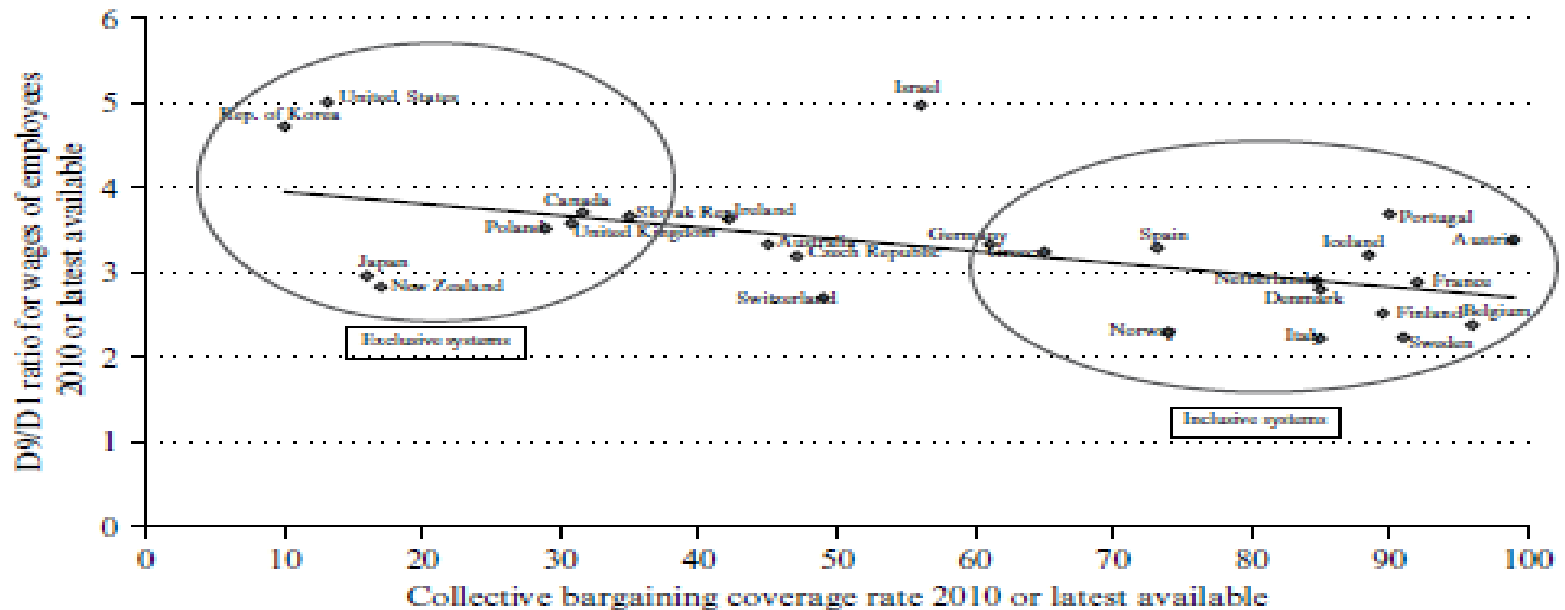
EXTENSION AND EMPLOYER DENSITY



BARGAINING COVERAGE AND INEQUALITY

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Labour markets, institutions and inequality



Sources: ICTWSS Database (Version 4.0 – April 2013) and OECD Stats.

Figure 4.5 *D9/D1 ratio and collective bargaining in developed economies (2010 or latest available data)*

